

U.S. Aerospace and Defense: Strategic Contributor to America's Strength, Prosperity, and Security.

Executive Roundtable on Space Will Convene at Phoenix Meeting

The AIA Board of Governors meeting in Phoenix in November will include the first-ever Executive Space Industry Roundtable.

Chaired by Ronald Sugar, chairman, chief executive officer, and president of Northrop Grumman Corporation, roundtable discussions will involve other space company CEOs, their senior space representatives, and representatives from AIA's Space Council.

The space industry is facing numerous critical challenges. Civil space is going through dramatic changes, national security space is facing major schedule and cost concerns, and commercial space is still in its infancy.

Participants in the roundtable will determine recommended strategies and directions that the U.S. space industry should take in 2006 and beyond, shaping space policy for industry in years to come.

Through the roundtable, the association's Space Council will bring its top issues to industry leadership, enabling the council to reflect member concerns and priorities at top levels.

The roundtable will meet twice a year at the CEO level, becoming a major tool in industry's mission to sustain the space industry and help shape a strong and effective national space policy.

AIA Source: jp.stevens@aia-aerospace.org

National Security Division Created

A new division has been added to AIA's structure to help the association better address member company needs and focus on critical defense issues.

The new National Security Division, headed by Craig Steidle, encompasses defense, international, technical operations, military aviation, and modernization functions within the association.

AIA's research and development position, which includes workforce issues, will move to the National Security Division.

The Executive Committee of the Board of Governors decided on the move to implement an expanded emphasis on

National Security Division continued on pg. 4

AIA Forms Four New Working Groups to Shape Major Issues

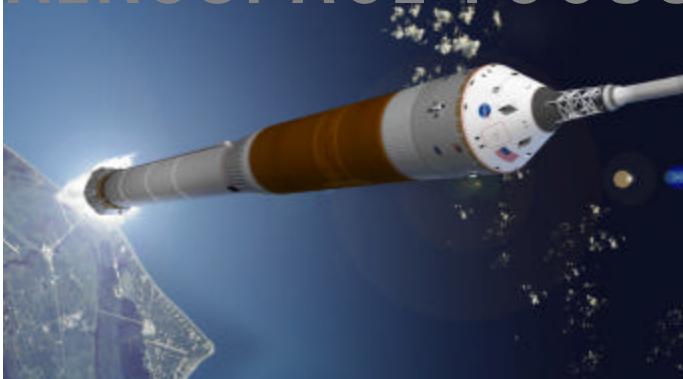
In response to an Executive Committee request for increased emphasis on defense and security issues, AIA has created four new working groups.

The groups are designing and executing strategic plans for regenerating the U.S. industrial base, reshaping the U.S. export control system, reforming the acquisition process, and limiting Buy American legislation.

Each working group is led by a member company chief executive officer.

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AEROSPACE FOCUS



The centerpiece of NASA's new space exploration system is a new vehicle designed to carry four astronauts to and from the moon, support up to six crewmembers on future missions to Mars, and deliver crew and supplies to the International Space Station. See story on Page 5.

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WASHINGTON PIPELINE

Defense Acquisition System Needs Quality Leaders, Stability

...a few good people who really understand what's going on can make even a pretty awkward process work.

I recently testified before one of the groups addressing acquisition — the Defense Acquisition Performance Assessment Project panel — and told members the positive recommendations they can make to end up with real gains for the system.

The group came together at the behest of Acting Deputy Defense Secretary Gordon England in June to take a detailed look at Pentagon procurement practices. It will present its findings and recommendations to Defense Secretary Donald Rumsfeld as well as the ongoing Quadrennial Defense Review.

One point I stressed was the importance of attracting and keeping the most qualified and knowledgeable civilian officials overseeing the complex system that buys the weapons that guarantee our safety and security. The easiest and most efficient way to improve the procurement system almost instantaneously is to find quality leaders and convince them to stay in office for a reasonable period..

As I told the acquisition panel, a few good people who really understand what's going on can make even a pretty awkward process work. Conversely, the best process possible can go awry very quickly with just a few unqualified people in powerful positions.

As in many other professional situations, people are the

Defense acquisition is getting a lot of attention these days. The aerospace and defense industry has been through this cycle in the past and recognizes there can be positive and negative outcomes.

But at AIA we are approaching the issue as an opportunity to stress to both the Pentagon and Congress real steps that would improve the procurement system. I

most important assets in the process.

Another important point I made before the panel centers on budget and requirement stability for major programs. Avoiding major changes to large contracts, especially crucial details like the number of items to be provided, would prevent the cost-per-unit escalation that causes so much heartburn. Employing multi-year contracts is also an effective way to keep prices constant and make sure taxpayers get the most for their money.

It was also important to alert the members of the panel to the workforce issues confronting aerospace and defense. An aging workforce and too few young people pursuing aerospace careers is a challenge in the Pentagon as well as within our companies. I told panel members they should recommend aggressive recruitment and retention for quality procurement employees throughout the Pentagon.

If some of these points sound familiar, it's because many are not new. The report from the 2002 Commission on the Future of the U.S. Aerospace Industry spelled out many of these improvements.

While that report, which I helped craft as a commission member, prompted some changes, other suggestions received little attention.

Defense procurement has its challenges, but it is not something that needs huge fixes, certainly not new laws. We will continue working with Congress and the Pentagon to ensure that any changes are positive and don't make the problem worse.



John W. Douglass

A stylized, handwritten signature in black ink.

AIA President and Chief Executive Officer

AEROSPACE INDUSTRIES ASSOCIATION

WASHINGTON WATCH

AIA Source: patrick.mccartan@aia-aerospace.org

House Aerospace Caucus Focuses on Space and National Security Issues

Space and national security issues were featured discussion topics at AIA's final 2005 House Aerospace Caucus luncheon in September.

Hosted by Reps. Dave Weldon (R-Fla.) and Norm Dicks (D-Wash.), the session included presentations by House Space & Aeronautics Subcommittee Chairman Ken Calvert (R-Calif.), outgoing NASA Deputy Administrator Fred Gregory, and Don Brownlee, 2005 chairman of the AIA Space Council and vice president of Washington operations for Aerojet.

Calvert and Gregory discussed the nation's Vision for Space Exploration and emphasized the need for the United States to maintain its role as the world's leading space power by deploying a reliable replacement vehicle for the space shuttle in the next decade and renewing robotic and human missions to the moon.

Brownlee briefed the caucus on U.S. national security space programs, noting that the Air Force and its federal government partners

Caucus continued on pg. 6



AIA Advocates Legislation to Allow Future U.S.-Russian Space Cooperation

AIA supports a Bush Administration position for continued cooperation between the United States and Russia on resupply missions to the International Space Station.

The current agreement between the two space powers on covering Soyuz vehicle support for the space station expires next April.

Without an amendment to the Iran Nonproliferation Act (INA) of 2000 that would enable NASA to extend the space cooperation agreement, astronaut and resupply missions to the space station would have

Space Cooperation continued on pg. 6

AIA Launches Campaign to Educate Governors on Aerospace Benefits

AIA's legislative affairs staff, supported by several member companies, has launched a series of defense trade briefings for the Washington-based offices of the nation's governors from states of significance to the aerospace industry.

Governors' offices have received an aerospace trade "toolkit" that documents the home-grown employment benefits of the industry's military and air transportation markets abroad and includes a draft letter to members of the respective congressional delegations from each state.

The letters appeal to Congress to avoid passage of legislation "that would restrict the nation's defense and aviation trade with key allies and commercial customers overseas."

The briefings also focus on the message that foreign allied participation in weapons research and operations makes a key contribution to national security while controlling the overall cost of sophisticated defense equipment.

Educate Governors continued on pg. 6

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Douglass: Funding Helps Preserve U.S. Aeronautics and Space Leadership and Technologies

Increasing NASA's aeronautics research and development budget and fully funding the nation's space exploration program are important steps toward safeguarding the U.S. position as the world's aerospace leader, AIA President and CEO John Douglass said.

The Senate in September increased aeronautics funding for fiscal 2006 to \$859.3 million. AIA worked with Sen. Mike DeWine (R-Ohio) and Sen. George Allen (R-Va.) to boost spending in this important area within the NASA budget.

The \$16.4 billion bill also fully funds the nation's Vision for Space Exploration, endorsing the president's plan to return American astronauts to the moon and travel on to Mars. The bill maps out the completion of the International Space Station as well as the phase-out of the space shuttle and its replacement with the planned Crew Exploration Vehicle

The House bill, passed in July, also fully funds space exploration while providing \$962 million for aeronautics research.

"The fact that both chambers increased funding for aeronautics in their NASA bills shows its critical importance to the future of U.S. aerospace," Douglass said. "Just as important, the bill provides funds to support America's role as the world's leading space exploration power, ensuring NASA and its partners can continue to develop a rich reserve of scientific technologies to improve our quality of life."

Also included in the bill is money to continue the initial steps of planning the Next-Generation Air Transportation System, a technologically advanced upgrade of American air traffic control and security.

Get the Jump on Aerospace Facts & Figures, 2005/2006



Now available on AIA's password-protected Web site are newly compiled data tables from the upcoming edition of *Aerospace Facts and Figures, 2005/2006*, due to be published in print in December.

Employees of AIA's member companies can register for free access to the site and others can purchase access on a prepaid subscription basis.

For more information, see www.aia-aerospace.org/stats/facts_figures/ff_subscription.cfm.

See order form on back page of this newsletter to reserve your hard copy of *Aerospace Facts and Figures, 2005/2006*

New AIA Members



Moving Up in Aerospace

AIA's roster of regular members had added two companies with familiar names — both have moved up from the associate member ranks.

The most recent tabulation of members shows 105 regular members and 168 associate member companies.

Here are sketches of the upward-bound duo:

AUSCO, Inc., designs and manufactures high-quality precision fluid control valves for military and commercial markets.

The company's products include check, relief, regulating solenoid, miniature, sampling, and combination valves as well as restrictors, orifices, snubbers, and manifolds.

For more information, visit www.auscoinc.com

Innovative engineering design, rigorous manufacturing techniques, and uncompromising quality are keys of AUSCO's success over its extended experience of nearly 50 years in custom fluid control components.

The award-winning company, located in Port Washington, N.Y., generates unique approaches to new valve products and solves the most difficult fluid control problems with creative engineering and manufacturing techniques.

Micro-Coax, Inc., is a leading manufacturer of microwave transmission line products for commercial, military, and space applications.

The company's research and development and manufacturing operations are conducted at its facility in Pottstown, Pa., which is ISO 9002 certified.

For more information, visit www.micro-coax.com

Micro-Coax products include semi-rigid cables, flexible cables, hand-formable cables, high-volume wireless coaxial assemblies, and passive delay lines.

AIA Source: trish.ward@aia-aerospace.org

National Security Division continued from pg. 1 defense and national security issues. "This reorganization will concentrate AIA's efforts in the defense arena while increasing our services to members in each of our divisions," AIA President and CEO John Douglass said.

AIA's other two divisions — Civil Aviation and Space Systems — remain in place. Civil Aviation, led by Michael Romanowski, will add a position to oversee air transportation system issues.

NASA Targets Moon

Before the end of the next decade, NASA astronauts will again explore the surface of the moon. And this time they plan to stay, building outposts and paving the way for eventual journeys to Mars and beyond.

This journey begins soon with development of a new spaceship. Building on the best of *Apollo* and shuttle technology, NASA is creating a 21st century exploration system that will be affordable, reliable, versatile, and safe.

The centerpiece of this system is a new spacecraft designed to carry four astronauts to and from the moon, support up to six crewmembers on future missions to Mars, and deliver crew and supplies to the International Space Station.

The new crew vehicle will be shaped like an Apollo capsule, but it will be

Moon continued on pg. 6

Working Groups **America's Defense** **continued** **Industrial Base** **from pg. 1** **The Industrial** **Base Working**

Group is focusing on the long-term ability of the U.S. industrial base to provide military systems to defend America.

The association believes it is essential to alert the administration and Congress to the need for long-range planning to maintain national industrial capabilities for the design and production of defense systems that can respond to emerging threats.

"Without continued investment by DoD, the ability of the United States to sustain capabilities to design, develop, and produce the advanced systems critical to national security will be in jeopardy," said AIA president and CEO John Douglass.

Export Control Reform

Through the new Export Control Working Group, AIA will facilitate a sustainable dialogue among industry, administration, and congressional leadership to develop consensus measures

Association Weighs In on Space Launch Risk Regime for Commercial Space Launches

The association recently provided an industry stance to a study of the third-party liability risk-sharing regime for commercial space launch providers and customers.

The Aerospace Corporation study ensures that Congress has a full analysis of the regime to assess various options for making indemnification permanent, eliminating it, or changing its parameters.

Under the current Commercial Space Launch Act, launch providers and launch customers are provided indemnification for commercial space transportation activities. Also, a licensee is required to maintain insurance at or above levels determined by the FAA to cover all private entities involved in carrying out a launch. The U.S. government also is covered as an additional insured at no cost to the government.

The Civil and Commercial Space committees of AIA's Space Council recommended that industry support the risk-sharing regime and, if possible, see that it's strengthened.

The recommendations include eliminating the "sunset clause" set for 2009, lifting the current \$2 billion cap on the U.S. commitment to pay successful third-party claims, and streamlining the complex system in place for U.S. payments.

AIA Source: andrew.barber@aia-aerospace.org

that will improve the predictability, transparency, efficiency, and effectiveness of the export control system.

The group is led by Mark Ronald, chairman and CEO of BAE SYSTEMS.

Acquisition Excellence

Defense acquisition policy continues to be an important issue for the aerospace and defense industry.

Current concerns include an apparent decline in the qualifications and experience of the acquisition workforce, problems recruiting quality appointees to government defense posts because of barriers to public service, a continuing lack of stable program requirements and funding, ongoing acquisition studies, and inadequate government investment in the defense industrial base.

William Swanson, chairman and CEO of Raytheon Company, will lead the Acquisition Reform Working Group in pursuing acquisition reform goals during the next year.

Buy American Restrictions

The Buy American Working Group

is overseen by Lockheed Martin Corporation Chairman, President, and CEO Robert Stevens. It seeks to avoid restrictive legislation that would add costs to defense programs, undermine interoperability with our allies, and threaten U.S. industry access to global markets.

The group is exploring positive alternatives to address congressional industrial base concerns.



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Association Offers NASA Industry Views on Aeronautical Test Needs

AIA presented an industry perspective at NASA's Wind Tunnels and Air Breathing Propulsion Test Facilities summer meeting in Hampton, Va.

NASA's Aeronautics Test Program proposal seeks to ensure strategic availability of critical suites of wind tunnels/ground test facilities necessary to meet the needs of industry and

NASA's Aeronautics Research Mission Directorate.

The test program categorizes facilities I through V based on importance. Facilities I and II will receive significant funding while others might be mothballed or incorporated into a level I or II facility.

Overall, industry supported the

NASA proposal and was pleased to be included in the discussions, during which two facilities listed as Category IV, yet of importance to several AIA members, were promised funds.

More details were requested on how Category V facilities might be incorporated into the Aeronautics Test Program. NASA promised to work on standardizing pricing between facilities.

AIA thanked Blair Gloss, ATP program manager, for the common sense approach to streamlining the NASA wind tunnel test facilities and offered to work with him in the future on this issue.

Lisa Porter, senior advisor for NASA Aeronautics, participated in the all-day workshop and reiterated the agency's position to preserve U.S. aeronautic capabilities for the future.

AIA Source: jana.denning@aia-aerospace.org

WASHINGTON WATCH continued

Space Cooperation continued from pg. 3

to depend on the space shuttle, which might not be operational again until September 2006.

The INA requires the United States to impose technology trade sanctions against any Russian government entity found to have transferred nuclear materials or weapons of mass destruction components to Iran.

A provision of the INA also bars "extraordinary payments" by NASA to the Russian Space Agency for space station services if the agency violates the anti-proliferation mandates of the law.

To ensure that U.S. astronauts can continue to operate the station beyond April of next year, administration officials have proposed that Congress clarify the INA to allow a continuation of the NASA payments as long as the Russian Space Agency complies with the law.

In endorsing the administration's proposal, the AIA paper articulates the broader benefits of joint U.S.-Russian space programs.

"U.S.-Russian cooperative programs over the last decade have proven critical...to the development of advanced launch vehicle propulsion tools...[and] the nation's ability to deploy and sustain dozens of satellites that have expanded the frontiers of Earth and space science," the paper notes.

Congress is expected to act on the INA amendment before the end of the year.

Educate Governors continued from pg. 3

AIA took this initiative so that state government officials could explain to their congressional representatives the domestic economic significance of the industry's international sales.

U.S. aerospace companies export approximately 40 percent of their total output and led the manufacturing economy last year in posting a \$31 billion positive balance of trade.

State government staff members who have received the briefing and toolkit thus far include those representing governors of California, Texas, Florida, Massachusetts, Ohio, Maryland, Michigan, and New York.

Caucus continued from pg. 3

require assured access to space for satellite targeting and reconnaissance operations critical to the

force projection capabilities of the nation's military.

The caucus, comprised of 50 members of Congress from 20 states with significant aerospace facilities, convenes three times a year for briefings on public policy issues that impact the competitiveness of the entire industry.

AIA Source: patrick.mccartan@aia-aerospace.org



Moon continued from pg. 5

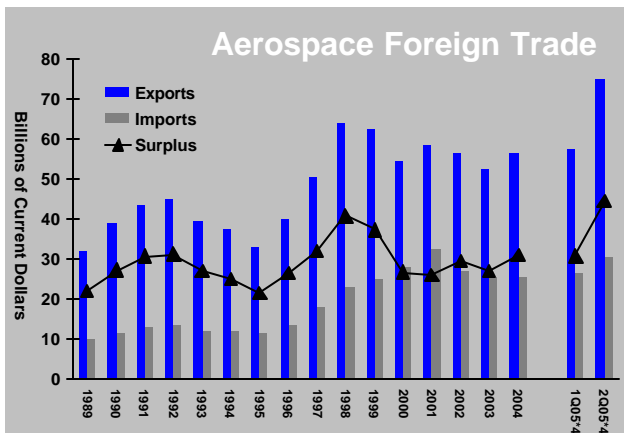
three times larger, allowing four astronauts to travel to the moon at a time.

The new spacecraft has solar panels to provide power, and both the capsule and the lunar lander use liquid methane in their engines. Why methane? NASA is planning for a day when future astronauts can convert Martian atmospheric resources into methane fuel.

The new ship can be reused up to 10 times. After the craft parachutes to dry land, with a splashdown as a backup option, NASA can easily recover it, replace the heat shield, and launch it again.

Coupled with the new lunar lander, the system will send twice as many astronauts to the surface as *Apollo*, and they will stay longer with the initial missions lasting four to seven days. And while *Apollo* was limited to landings along the moon's equator, the new ship will carry enough propellant to land anywhere on the moon's surface.

Aerospace Foreign Trade Surplus Continues to Grow



Foreign trade in the aerospace industry is continuing to show strength, posting a surplus of about \$19 billion in the first half of this year.

According to statistics compiled by AIA's Aerospace Research Center, the industry exported a total of \$33 billion in products through June while importing \$14 billion. The \$19 billion surplus at the year's midpoint puts it on pace to surpass last year's total surplus of \$31 billion.

AIA President and CEO John Douglass said the statistics show aerospace continues to be a vital keystone for the U.S. economy.

"This news comes on the heels of reports of growth in aerospace employment as well as orders, shipments, and backlog," Douglass said. "Our industry can boast the largest positive foreign trade balance in U.S. manufacturing."

U.S. aerospace exports showed a boost in the second quarter of this year, totaling \$19 billion in that three-month period. U.S. companies exported 25 fighter jets in the second quarter, up from four in the first quarter, when exports totaled \$14 billion.

The statistics include transport aircraft, general aviation aircraft, helicopters, aircraft engines and parts, spacecraft, satellites, missiles, rockets, and rocket engines and parts. The raw data comes from the U.S. Commerce Department and covers both military and civilian aerospace products.

Additional foreign trade data are available on the Web at www.aia-aerospace.org/stats/aero_stats/aero_stats.cfm. See Series 31 and 32.

Aerospace Is Booming

All aerospace economic indicators, which AIA reports on quarterly, improved in the second quarter, and many reached their highest level in eight years.

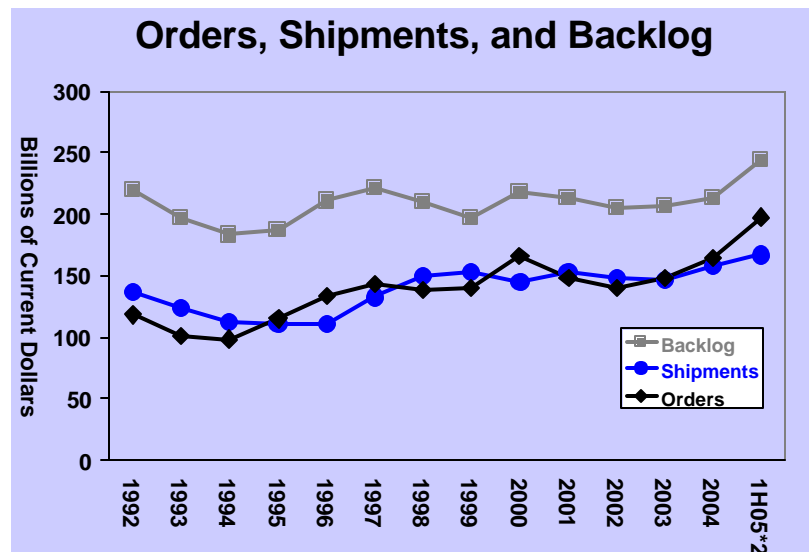
For example, orders surged nearly \$20 billion, or 46 percent, to \$59 billion, exports increased 30 percent to \$19 billion, and overall sales rose 10 percent to \$50 billion — each an eight-year high.

Also, profits and military exports rose to their highest levels since 1999 at approximately \$3 billion each, and employment rose 9,000 during the quarter to its highest level in three years.

Exports of civil products always exceed military exports, but military aircraft exports tripled in the second quarter with renewed vigor in fighter, transport, and helicopter trade. Still, large fixed-wing civil aircraft accounted for \$3 billion of the \$4.3 billion overall exports increase.

Both defense and civil shipments increased in the first half of 2005 over 2004. Defense entered its fifth year of rising shipments while civil shipments entered its second. Civil shipments are on a pace to increase 17 percent over those two years.

New orders and the backlog of unfilled orders have surged in 2005 on top of last year's growth. Despite a



slowing of military orders, total orders reached nearly a \$200 billion-a-year pace in the first half of 2005.

The Boeing Company alone booked orders for 422 commercial aircraft in the first two quarters of 2005, compared to 267 and 237 in all of 2004 and 2003, respectively.

For more information or to subscribe at no cost to AIA's statistical reports, see subscription form and data at www.aia-aerospace.org/stats/aero_stats/aero_stats.cfm.

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